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ABSTRACT

New York State's system of financing education needs reform. Children in school districts where poverty pervades do not receive an adequate education; disparities in available funding resources have produced uneven levels of school spending among school districts; and state-aid formulas fail to correct for differences among districts. Children in large cities where poverty is concentrated are hurt most by the lack of educational equity. This paper reviews the reasons why New York State's method of funding public schools needs to be changed. It reviews the three major lawsuits currently in New York State courts and past litigation in the state. Options for reform are analyzed. Suggestions can be grouped into four major policy categories: (1) Redistribution of the responsibility for school funding between state and local school districts; (2) realignment of tax sources or use of new combinations of taxes for the support of public schools; (3) improvements in the educational process; and (4) governance reform within school systems. A model is offered that weaves together some of these options into one plan that might achieve the major goals of reform. Appendices contain a discussion of the experience with school-finance reform in five other states and a chart of school-finance litigation. (RT)

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Options
in School Finance Reform in New York State

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Options
in School Finance Reform in New York State

Prepared for the Educational Priorities Panel
by Joan Scheuer, March, 1995

STATE OF NEW YORK

GEORGE E. PATAKI
GOVERNOR

Excerpt from a July 18, 1995 letter to the Educational Priorities Panel:

I agree that educational funding reforms are necessary and have announced my intention to use the coming year to develop proposals for introduction in 1996-97 to improve the State's school financing system. The strategies outlined in your report, Options in School Finance Reform in New York State, will receive full consideration during this upcoming reform effort.

Very truly yours,

Geo E. Pataki

EXECUTIVE CHAMBER STATE CAPITOL ALBANY 12224

Executive Summary

The Problem: New York State's system of financing education needs reform.

It's not working for children. More and more, the quality of a child's education in this state depends on where he lives — his neighborhood and the schools his neighbors are able and willing to support. Children in school districts where poverty pervades do not receive even an adequate education and have fallen far behind their peers on all performance measures.

It's not working for the taxpayer. Disparities in available funding resources within New York State have produced grossly uneven levels of school spending among school districts. Property tax rates have risen sharply in many parts of the state and voters are becoming less willing to approve proposed school budgets that require increases in local taxes.

State aid formulas are not working. The package of school aids has become so complex that few understand it. The formula for distributing state funds was designed to compensate for differences among school districts in local wealth and in the needs of different groups of pupils. But the funds distributed by the state fail to correct for these differences.

Hurt most are children in large cities where poverty is concentrated. This is true for two reasons: The legislature has limited aid each year for the City of New York to an arbitrary "share" of the total aid distributed statewide. School aid for New York City is negotiated each year off-stage, not in the open legislative process. It falls short of what would be earned by the New York City school district under the formula— and provides less aid per pupil than the City would receive if there were no equalizing formula in place. As measured by the aid formula, New York City is a district of average wealth with many pupils who need extra services; an equitable formula would allocate *more* than average aid for New York City schools; instead they are receiving *less* than the average school aid per pupil paid for the state as a whole.

The second reason why children in the five largest cities in the state are shortchanged is that their school districts are "dependent." State aid for the five largest cities in the state flows not to the school districts but to the municipalities, where it is often used, at least in part, for non-educational municipal purposes.

The legislature has done nothing to resolve these problems. Many task forces and commissions have been appointed to study the way schools are funded. Many proposals for changing the system have been offered. But the legislature has not had the political will to implement any of the proposals. Advocates for change believe that it will take a judicial ruling to achieve a thorough-going revision of the state's system of funding education.

Confronting the Problem: The current system of financing education in New York State is now being challenged in the courts. Three lawsuits have been filed challenging the constitutionality of the state's system of financing public schools. The first, *R.E.F.I.T. (Reform Educational Financing Inequities Today) et al. v. Mario M. Cuomo* was launched by a group of property-poor school districts on Long Island. They claim that the system is unconstitutional because the state's undue reliance on local property tax financing makes it impossible for them to fund their schools on an equal basis with their richer neighbors.

The New York City Board of Education and the City of New York filed a joint complaint in the spring of 1993 against the Governor and other state officials, claiming that the state's system of financing education violates the equal protection and education clauses of the state constitution. A group of community school boards, parents and advocacy organizations in New York City filed a separate action under the name of the *Campaign for Fiscal Equity* or CFE. The CFE suit argues that the present system fails to provide children in the New York City school district with a basic, adequate level of education.

The new cases are not a replay of the 1982 *Levittown* suit in which the state's school funding system was held constitutional. At the time of the *Levittown* suit, the state had no clear-cut policy on educational standards. Today, the State Education Department and the Regents have expressed a commitment to the principle that all children can learn and that all are entitled to sufficient resources to help them learn.

The current plaintiffs claim that the system has a racial impact since it disproportionally affects minority pupils who are concentrated in New York City. This was not a major issue in *Levittown*. New York City plaintiffs claim not that the formula treats them unequally but that the legislature fails to implement the formula for New York City and instead contrives to limit aid for New York City to an artificial, reduced share of total aid.

Remedies for this condition are not to be found in minimal adjustments to the state aid formulas, but in a guarantee of at least a basic minimum level of

education for every child. The remedy today is not targeted on the formulas that the legislature tinkers with each year to suit political exigencies, but on changing the system that permits such adjustments.

Whatever the outcome of the litigation, the problems that gave rise to it must be addressed. It is important that civic groups and education advocates understand the issues involved. There has been little understanding of how public schools are funded. Legislators have been divided on the issue by region. School aid is a major issue to suburbanites but representatives from New York City have tended to leave the issue to technicians to negotiate. It is time for civic organizations and educators throughout the state to enter the debate. They need to understand what is at stake and the implications of the various options for change that are soon to be part of the legislative agenda.

Some Solutions: a number of options are open to us to improve the way schools are funded in our state.

There have been four major strands to the reform proposals offered for reforming school finance methods in New York State:

The redistribution of the responsibility for school funding between state and local school districts:

1. Full state assumption of school costs
2. State funding of certain education costs
   - — Full state funding of basic educational costs
   - — Full state funding of instructional costs only
   - — Full state funding in return for voluntary property tax reduction
3. Raising the state's support of operating costs

The realignment of tax sources or use of new combinations of taxes for the support of public schools:

4. Eliminating or reducing the property tax
5. Substituting a local surcharge on income taxes for property taxes
6. Modifying the property tax
   - — A statewide property tax
   - — Broadening the property tax base
   - — Partitioning the property tax so that commercial property is taxed and redistributed at the state level
   - — Improving the administration of the property tax

Improvements in the education process; the options reviewed are:

7. Raising graduation standards and enriching the curriculum
8. Improving teaching and learning through school-based decision-making

Governance reform, the paper analyzes:

9. A proposal to restructure the New York City school system
10. Granting fiscal independence to large city school districts
    — Maintenance of effort issues
    — Full state funding of instructional costs for the big five cities

It is important to note that the restructuring of a state school finance system usually involves a combination of changes. For the purposes of explanation and discussion in this paper, we have presented reform proposals individually. New York State legislators, on the other hand, will be considering how many of these options to adopt. The last four proposals are not strictly finance issues, yet most experts believe that the reform of education funding systems cannot be considered in a vacuum; attention must also be paid to improvements in the education process and to reforming the governance of public schools. Decisions must be made about where education money should be spent and who makes these decisions.

A proposal:

Finally, we offer as an example one model which weaves together several reform elements. It proposes that state aid for the big five city school districts be assigned directly to the school district rather than to the municipality, and that the state assume full responsibility for funding only the instructional costs of each of the big five city school districts. This would relieve the municipalities of the costs of instruction, but the municipalities would assume full responsibility for funding non-instructional costs out of city tax levies.

Conclusion:

There are viable options for reforming of the way our state finances education. If the courts uphold the claims of the plaintiffs now challenging the system, a wide range of proposals is at hand to implement the court's decision. It is important for civic groups and private citizens to understand the policy questions that must be faced as this important issue moves to the forefront of the state's agenda.

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Introduction

During the last two years, the Educational Priorities Panel held a series of meetings on Equity in School Finance. Speakers from states where school finance has been restructured or recently challenged came to EPP's public forums and described their experiences with school finance reform. Among the speakers were Margaret Goertz and Marilyn Morheuser from New Jersey, Robert Sexton from Kentucky, Perry Keithly from the state of Washington, Donald Moore from Chicago as well as lawyers in charge of each of the New York City lawsuits that currently challenge New York State's system of public school funding. Discussions with these veterans of court and legislative battles have already helped attorneys shape strategies and have kept the advocacy community informed on the issues to be faced in New York.

This paper is based on information presented at EPP forums and follow-up discussions of the problems raised there. The paper reviews the reasons why New York State's method of funding public schools needs to be changed and why it is important for civic groups and organizations interested in improving public education to confront the issues involved in school finance reform. The paper then reviews the three major lawsuits currently before New York State courts and the past litigation in the state. A discussion of the experience with school finance reform in five other states is included in the Appendix.

Our paper then turns to an analysis of options for reform. Many suggestions are on the table for changing the way we finance public education and improving educational opportunities for all children in New York State. They can be grouped into four major policy categories:

1. **Redistribution of the responsibility for school funding between state and local school districts.**
2. **Realignment of tax sources or use of new combinations of taxes for the support of public schools.**
3. **Improvements in the educational process.**
4. **Governance reform within school systems.**

Among these we have selected for discussion and evaluation *ten options* which illustrate the above categories. *In conclusion, we offer a model,* weaving together some of these strands into one plan that we believe would achieve the major goals of reform.

Section I. *The Need for Change*

Mounting Pressure to Change the Way Public Schools are Financed in New York State

Growing deficiencies, inefficiencies and inequities

The gap in spending per pupil between affluent and property-poor school districts has grown in the last decade. Since 1982, when the state's system of distributing funds for public schools was last challenged, disparities in property wealth available to support local schools have widened. The result is a growing spread between resources available to pupils in affluent districts and resources available to pupils in property-poor areas and crowded urban centers. To take an example from the suit brought by a group of Long Island school districts against the state of New York,[1] the Wyandanch school district, with a 93 percent black student population, has local property wealth behind each pupil valued at $63,893 and an average annual income of $26,431.[2] Local resources and state aid together enable Wyandanch to spend only $5,205 per pupil on day-to-day operating expenses per pupil. In near-by Amagansett, where the student population is 96 percent white, there is $3,124,716 in property wealth behind each pupil, average income behind each pupil is $305,603 and operating expenditure per pupil is $16,094. Of course, this is an extreme case, because Amagensett is a resort community with many expensive estates and very few year-round pupils and Wyandanch is a residential community with little commercial real estate to tax, but such discrepancies abound throughout the state.

> **• District wealth:**
> The state aid formula measures the capacity of a school district to support its public schools in terms of the value of the taxable real estate within its boundaries and the aggregate family income of its residents. Both these values are expressed in per-pupil terms. School district wealth is defined by a formula which gives equal weight to both the aggregate full value of property behind each pupil and the aggregate personal income in the district behind each pupil.

Closer to home, the State Education Department's most recent 1994 data show that New York City spent $6,793 in total expenditures per pupil in 1992-93 compared to $9,339, the average total expenditure per pupil in the surrounding metropolitan area.[3] Despite a state aid formula that is designed to provide more money to low-wealth districts, discrepancies in per pupil spending continued to increase throughout most of the decade.[4] In his analysis of educational inequities

1. *Reform Educational Financing Inequities Today (R.E.F.I.T) v. Mario M. Cuomo et al.*, Index No. 2500-91, p. 22.
2. For these figures, pupils are defined as "total wealth pupil units" (TWPU). See below.
3. State Education Department, *Analysis of School Finances in New York State Districts, 1992-93*. Table 5, p. 11. LI-Metro computed without N.Y. City.
4. Ibid., Table 9, p. 16.

• Combined wealth ratio (CWR)

The state defines each district's wealth using a formula called the combined wealth ratio (CWR) which measures, in equal parts, the dollar value of all the taxable real property in the district divided by the number of weighted pupils and the aggregate value of its residents' taxable income behind each pupil.

in New York State, Robert Berne found that serious input and outcome inequities persisted in terms of both resources available to pupils such as class size, experienced and qualified teachers, technical equipment and student outcomes such as test scores, drop-out rates and graduation rates.[5] The Swygert Commission[6] summarized the effect of these inequities; it found that the state was effectively polarized; that we had

> *...a largely segregated, dual system of education. Schools in predominantly middle class districts offer their pupils far greater program resources and co-curricular and extra-curricular enrichment than schools serving lower income children.*

Underfunded schools in New York City

In New York City, schools are grossly underfunded. Buildings and playgrounds are ill-maintained and many students feel unsafe in them. All indicators of achievement-test scores, graduation rates and retention rates reveal the sorry state of urban schools. Parents, teachers and students are increasingly frustrated with a system that compels attendance but fails to provide sufficient resources to sustain even minimum standards of educational services.

• Computing school aid for New York City on a borough basis

Under the decentralization law passed in 1968, the New York City school district was subdivided into 32 school districts. Instead of computing operating aid separately for each of these, the law provides that operating aid be computed separately for each borough in the city. Aid is not distributed on this basis; it is computed for each borough and added to other aids for a state aid total which then flows to the city government as part of its revenue from the state.

Take New York City's 1994-95 operating aid for each of the five boroughs as an example: Manhattan has a Combined Wealth Ratio (CWR) considerably higher than the state average, or 2.63, so its operating aid is computed only as the flat grant of $400 for each of its weighted pupils in operating aid. In the Bronx, the CWR is considerably below the state average, or .40; so it generates $2,962 in operating aid for each of its weighted pupils. Brooklyn's CWR is .62; it generates $2,392 per pupil. In Queens, the CWR was 1.02, so the operating aid formula produced $1,390 per pupil, and in Staten Island, the CWR was 1.26, yielding $760 per pupil in 1994-95 operating aid (these figures include the adjustment for additional operating aid). Aid for all boroughs is summed to produce total operating aid for New York City.

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5 Robert Berne and Lawrence O. Pincus, *Outcome Equity in Education*, American Education Finance Association. pp. 1-21 (Thousand Oaks, Cal.: Corwin Press, 1994)

6 New York State Special Commission on Educational Structure, Policies and Practices, H. Patrick Swygert, Chair, *Putting Children First*, Vol. 1, December, 1993 p. 24.

• Flat grant
The state guarantees every district at least $400 per pupil (a flat grant) so that even if a school district's wealth and pupil needs are such that it is entitled to no aid under the formula, it receives at least a minimum of operating aid support from the state.

New York City serves 74 percent of the state's minority pupils, 79 percent of its pupils with limited English proficiency and a high proportion of pupils in special education.[7] New York City students perform poorly on state administered achievement tests. On reading tests at the third and sixth grade level, 40 percent of those tested in New York City scored below the state reference point (or SRP). Children scoring below the cut-off point are considered to be in need of compensatory services. In suburban school districts, 9 percent of the tested students scored below the reference point, and for the state as a whole, 21 percent scored below the reference point.[8] Parallel discrepancies in performance characterize almost all other measures of pupil performance when pupils in New York City are compared to other areas in the state.

Of all the students in the state attending schools with high concentrations of poverty, New York City enrolled 67 percent.[9] Studies which have examined the factors that are thought to affect educational results have found that among the predictors of achievement, poverty is one of the most powerful. Poverty is closely associated with poor test achievement and other measures of success in school, as *The State of Learning* reports:

> *Poverty has a pervasive effect on children's physical, emotional, and cognitive health ...Some districts have disproportionate numbers of children who are at risk of being educationally disadvantaged. These children are more likely than others to have poor schooling outcomes...These analyses reveal that those children who are most at risk of school failure received fewer resources than their more advantaged peers.*[10]

With such excessive need and relatively average wealth, New York City would earn well above the state average in total aid per pupil. Yet, according to the State Education Department's 1994 report to the state legislature, total state aid for New York City amounted to $ 3,118 per enrolled pupil in 1992-93, compared to $3,345 per enrolled pupil in the rest of the state.[11]

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7. State Education Department, Albany, N.Y., *The State of Learning, A Report to the Governor and the Legislature*, vol. 1, February, 1994. pp. 11-13, 91-92.
8. *Putting Children First*, p. 21.
9. *The State of Learning*, p. 13.
10. Ibid., p. xxiv.
11. State Education Department, *Analysis..., 1992-93*, Fiscal Analysis and Services Unit, Albany, N. Y. November, 1994. Pupils are defined as CAADM, an enrollment count. Table 15, p. 26.

• Counting Pupils

New York State aid formulas count pupils differently for different purposes.

AADA: To compute aid per pupil, pupils are counted in terms of attendance- "Adjusted Average Daily Attendance." AADA is the average number of pupils in attendance on each regular school day.

TAPU: In computing operating aid, the formula uses "Total Aidable Pupil Units", or TAPU in which pupils are weighted by grade level, summer school and the PSEN percentage. In computing operating aid, districts may use the TAPU of the base year, or the average of the base year and the year prior to the base year. The higher of these two figures is referred to as "selected TAPU."

TAPU for expense: When TAPU is used as the divisor in formulas measuring expense (AOE) it includes weightings for pupils in special education.

TWPU: Another method of counting pupils is used as the divisor for measuring district full value or income per pupil: For computing district wealth, the formula uses "Total Wealth Pupil Units" or TWPU which includes all grade level weightings, weightings for PSEN and for pupils in special education programs, but omits summer school weightings.

RWADA: This count of pupils was used in earlier formulas. Based on WADA, weighted average daily attendance, it includes only grade level weightings. RWADA persists in a few formulas such as building aid, transportation aid and BOCES aid.

The politics of aid for New York City

The problems that affect New York City with its heavy concentration of poverty and high minority enrollment are shared by other large city school districts and by poor city districts that are located within suburban counties. However, aid for New York City's schools has been particularly affected by the growing strength of suburban and up-state representatives in the state legislature who have been reluctant to vote increasing aid to the city. Under the state aid formula, New York City's relative wealth declined during the 1980's and its pupil population grew compared to all other districts in the state, both in absolute numbers and in relative need. New York City is now entitled to considerably more under the aid formula than it currently receives in state aid. The aid formula defines the city's wealth as close to the state average and adds extra weights to the city's pupil count to reflect its many pupils requiring compensatory and special services. Yet the New York legislature determines education aid for New York City separately, by-passing the formula and restricting it each year to a limited percentage of the year's statewide school aid appropriation.

EPP has described many times the process by which state aid for New York City is determined each year. The legislature and state officials agree on how much money will be distributed in the form of state aid to public schools. Then a behind-the-scenes negotiation takes place to dole out "shares" of the available money among two or three sets of recipients, the Long Island districts (they get about 11 percent), the New York City school district (34 percent, creeping up to

35) and the Rest of the State (all other school districts in the state). Throughout the last decade, New York City's share has inched upwards from 31 percent to 34.9 percent.[12] New York City has 37 percent of the enrolled pupils in the state, so its aid per pupil actually falls short of what it would receive if the state had *no* state aid formula and distributed aid on a simple head-count basis. That is why current lawsuits challenge the legislature to end back-stage negotiations which *reduce the city's entitlement to an arbitrary share of available aid, rendering state formulas a charade.*

Troubles in the rest of the state

New York State's heavy reliance on local funds to support public schools has created serious problems in suburban and rural areas. Our system of supporting public schools depends on the initiative of local tax payers supplemented by contributions to school districts made at the state level in the form of state aid. In the 1993-94 school year, $23.6 billion was spent for public schools, of which 39.2 was supplied from state sources.[13] Local contributions account for 57 percent of all school revenues and the remaining 4 percent is supplied by the federal government and a few non-governmental sources.[14]

The state's contribution has been reduced in recent years. The percentage of funds supplied by the state has fallen from 44.2 percent in 1988-89; even then, New York ranked relatively low among other states in the percentage of state funds supplied for public schools. New York ranked 36 out of 50 states on this measure in 1991-92.[15]

Property taxes comprise 31.9 percent of all state and local taxes. New York State levies no property taxes; property taxes are the province and chief resource for funding local governments such as counties, towns, villages and, yes, school districts. The state has granted independent fiscal authority to 711 school districts.[16] Each district's elected school board prepares a budget, estimates how much it will need to raise from the local public in the form of taxes and submits the budget to the public for a vote where it may be approved or rejected. Virtually the entire tax levy is derived from taxes on local property.

Local property taxes have risen to keep pace with growing property values. In addition, the graying of the suburbs has fanned the anti-tax mood in suburban areas, making it harder for many school districts to gain voter support for local school budgets. Rural areas, too, have felt the impact of rising property values and higher taxes and have been struggling to meet the costs of maintaining educational standards in sparsely populated areas.

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12. New York City Board of Education, *The Chancellor's Budget Report for 1994–95*, April 1994. p.19.
13. State Education Department, *Analysis...*, 1992-93. Table 1, p. 3.
14. *The State of Learning*, February, 1994. p.35.
15. National Education Association, Washington, D.C., *Rankings of the States*, 1993. Table F-9, p. 47.
16. Except for the state's five largest cities, school districts in New York are fiscally independent in that they are empowered to levy property taxes for school support.

County and village taxes have risen as responsibility for such functions as welfare and environmental protection has been shifted from state to local governments. Uneven property assessment practices and inefficient methods for computing and applying equalization rates have distorted property values and exacerbated public distrust of all governments including the public education system.

> **• Full Value:**
> To determine tax rates, local tax assessors survey all the real property in a jurisdiction and assign a dollar value to each parcel. Because assessment standards of value vary widely throughout the state, the State Board of Equalization and Assessment conducts surveys of the real property in each jurisdiction and determines an "equalization ratio" which relates assessed values to current market sales. This ratio establishes a dollar value for property throughout the state that approximates market value and makes comparable all property values throughout the state. In theory, "full" or "equalized" makes it possible to relate all school districts to a single, common scale of values for property wealth.

Suburban school districts have been subjected to reductions in state support that override the protections of save-harmless provisions — provisions which had assured each district at least as many dollars of state aid as it had received in the previous year, even if the district was entitled to less under the formula because of a change in its relative wealth or a drop in enrollment. As recent elections have demonstrated, the public throughout the state is disenchanted with government and increasingly resistant to further tax increases.

A dysfunctional formula

The state aid formula has become dysfunctional. New York State's school finance system was once a model formula, designed to distribute state support on the basis of objective criteria which would reflect the local school district's pupil needs and ability to raise local revenues. By the early 1990's, the system had become so unwieldy that few people understood it. General aid for the support of on-going operating expenditures has been overwhelmed by a host of separate aid programs. Layers of save-harmless provisions now carry forward district entitlements with no reference to enrollment losses or changing pupil needs. For the state's largest city, New York, the entire formula mechanism has become a charade, permitting political forces to prevail and allot New York City a negotiated percentage of the total available educational aid, with scant relation to the formula changes that are applied elsewhere throughout the state.

Policy questions for civic groups

- **Civic groups must confront the policy questions involved in school finance reform.**
- **Civic groups should consider in greater depth such basic questions as how to apportion responsibility for educational support between state and local governments, how best to share tax burdens, how to restructure schools.**
- **Where successful change has been achieved in other states, it has been under girded by leadership from the business community and elected officials and the understanding and support of major civic organizations.**

- **Broad consensus on the best way to change the present system will not be easy to achieve in New York State. Civic groups need to have a grasp of the available options for reform and an understanding of their implications for all sectors of the state.**

Proposals for reforming school finance range from state assumption of total fiscal responsibility for funding public education to plans that would place almost all responsibility for funding at the local level, giving local school districts, and even decentralized units within present school districts, greater authority over their own budgets and their own school programs. Some proposals focus on how best to restructure local schools within a school district and others offer plans to revise the state's distribution and revenue raising methods so that all school districts in the state will be more equitably served.

To assess these suggestions, civic groups and citizens need to understand the cost implications of proposed changes. If new revenues are implied, they need to consider what groups of citizens would pay for the change and what groups would most benefit from it. Perhaps most important, they need to focus on how proposed reforms would improve teaching and learning in the classroom.

Section II. *Court Challenges*

The Current System of Financing Schools is Now Being Challenged in the Courts.

Three lawsuits have been filed challenging the constitutionality of New York State's system of financing public schools. The actions call for a new look at the decision handed down in 1982 in the *Levittown* case[17] in which the New York Court of Appeals reversed a series of lower court decisions and declared the state's system of financing schools constitutional.

Long Island school districts

The first fresh challenge to New York's system of financing public schools was launched in 1992 by forty property-poor school districts in Long Island and some of their pupils, using the rubric REFIT (Reform Educational Financing Inequities Today).[18] They held that, as low-wealth school districts, they were unable to provide the funding required to compete on an equal basis with their immediate neighbors. The REFIT case cited the state's undue reliance on property taxes and the widening gap between rich and poor districts in ability to support public schools. It described the inequities in school spending that this disparity in wealth produces and argued that the failure of the legislature since *Levittown* to correct resource inequities among districts violates state and federal constitutional equal protection guarantees. The plaintiffs claim that funding differentials between different types of districts have become significantly worse since 1982. Rankings of per pupil expenditures in Suffolk County school districts show a range of funding levels stretching from an available total expenditure per pupil of $43,048 per pupil (Fire Island) to a low of $7,107 (William Floyd).[19] The plaintiff districts further contend that their districts have become more burdened since *Levittown* because their enrollment of minority pupils has increased and state mandates have become more oppressive.

The lower court in Nassau County granted the REFIT defendants motion to dismiss in February 1992 and the Appellate Division upheld the decision in December, 1993. In its decision to dismiss, the Appellate judges noted that the REFIT plaintiffs had not argued (as had amici curiae) that their students were not receiving a sound basic education. It is significant that the State Attorney General based his defense on the argument that *no* claim had been made by plaintiffs asserting that the state was failing to provide a sound basic education. The case was argued before the Court of Appeals in January, 1995.

17. *Board of Education of Levittown Union Free School District, v. Nyquist*, 453 N.Y.S. 2d 643 (1982).
18. *Reform Educational Financing Inequities Today (R.E.F.I.T.) et al. v. Mario M. Cuomo*, Nassau County, Index No. 2500/91 RADI No. 92-08663.
19. Ibid.

The New York Board of Education lawsuit

The New York City Board of Education and the City of New York filed a joint complaint in the spring of 1993[20] against the Governor and other state officials. They claimed that the state's system of distributing school aid violated the state constitution's education article by providing a dual system of education throughout the state which treated its poorest children differently from those in wealthier areas. The brief also claimed that the system violated Title VI of the federal Civil Rights Act by providing fewer dollars per pupil for minority pupils than for white pupils in the state.

The Campaign for Fiscal Equity lawsuit

In 1993, a group of community school district boards, parents, advocates and children formed the Campaign for Fiscal Equity (CFE) and filed a suit against the Governor, leaders of the Senate and the Assembly and other state officials.[21] Like the Board of Education's complaint, CFE argued that the present system violated the state constitution's education clause and its equal protection clause in that it distributed an unfair share of state aid to the New York City school district, which currently receives less than average state aid per pupil. The suit claimed that state policies had a racial impact because they deprived the city's largely minority student population of resources in violation of Title VI of the federal Civil Rights Act and the state constitution's civil rights clause. CFE argued that the state legislature each year has failed to supply sufficient funds to enable New York City schools to meet the educational standards spelled out by the State Education Department and the Regents. It emphasized that the state failed to provide New York City pupils with the sound basic education that the Court of Appeals in *Levittown v. Nyquist* implied was minimally required.

Last February, oral arguments were heard on the state's motion to dismiss the two New York City suits, *Campaign for Fiscal Equity v State of New York* and *City of New York v. State of New York*. The two suits were treated together as related cases and the lawyers for each coordinated their arguments. The lower court judge ruled that the board of education and the community school district boards did not have standing to sue the higher level of government that created them, a ruling now being appealed. The same court found no reason to dismiss the major arguments of the Campaign for Fiscal Equity, and ruled that the state's system may indeed violate equal protection clauses, that the education provided New York City children may be inadequate and that the system may show discrimination on the basis of race. These claims were argued again before the state's Appellate Division on October 4th, 1994. The Appellate Division ruled against both claimants, and the suits were carried to the state's highest court, the Court of Appeals.

20. *The City of New York and the Board of Education of the City of New York; David Dinkins, Mayor and Joseph A. Fernandez, Chancellor, v. Mario Cuomo, Governor, et al., Amended Complaint for Declaratory and Injunctive Relief.* Index No. 93/401210 (1993).

21. *Campaign for Fiscal Equity, Inc. et al. v. Mario Cuomo, Governor, et al. Complaint for Declaratory and Injunctive Relief.* Index No. 93/111070 (1993).

The experience in 1982 in the New York case, *Levittown v. Nyquist*

The lawsuits brought on behalf of the New York City schools are not a replay of the *Levittown* case. *Levittown* was initiated by a group of property-poor districts claiming that they were disadvantaged by the state's undue reliance on the property tax to fund education. The four large cities that entered the lawsuit as intervenors made entirely different claims, focusing on the needs of urban pupils and the burdens of competing with other municipal functions for funding. The complaints of the two sets of plaintiffs were not always consonant. Remedies capable of addressing both complaints were difficult to identify. Currently, the interests of two sets of plaintiffs have been separated. More important: the *politics* of state aid has separated New York City from the rest of the state.

The issue of adequacy was not raised in the *Levittown* case, a fact that was not lost on the judges. At the time, the state had not stated a clear-cut policy on educational quality, nor had the Regents promulgated any educational standards. But this situation has changed. The plaintiffs in this new appeal are strengthened by the fact that since 1982, the state has promulgated a new, strong and inclusive set of standards. In its State Education Department requirements and its major documents, The *Regents' Action Plan* and *The New Compact for Learning*, the present Board of Regents has stated its commitment to a quality education for all children, to a focus on results and to a conviction that all children can learn. On the basis of these express policies, the new challenges have a clear potential for reform, if given a chance before the court.

The education clause in New York state's constitution requires only that the state provide "a system of common schools wherein all the children can be educated."[22] Defendants in *Levittown* successfully argued that nothing in this clause implies that the state must provide equal education for all, nor does it imply a given level of funding. They held that the practice of local control was a legitimate state interest, sufficient to permit the range of disparities that then existed. The current city cases do not rest on the claim that the system produces inequities among school districts across the state, although ever-widening disparities can be demonstrated. Their briefs do not claim that undue reliance on the property tax is responsible for the inequities that affect pupils in New York City. Unlike the arguments of the urban plaintiffs in *Levittown,* they do not claim that the *formula* discriminates against New York City because it fails to take account of municipal overburden and the high cost of doing business in New York City and counts pupils in a way that disadvantages its aid entitlement. For this reason the remedies implied at the time of *Levittown* are now irrelevant; remedies such as changing the pupil count, adding a cost index to the aid formula, adding weights to account for extra needs. Experience has shown that minor— or even major — adjustments to the formula have little effect on the actual distribution of funds to

22. New York State Constitution, Article XI, Sec.1.

New York City schools. The real problem is that the formulas are adjusted every year to meet the targets set through legislative negotiations.

The plaintiffs in *Levittown* did not make a strong case that state policy for distributing aid had a serious racial impact. The complaint was statewide, and it proved difficult to establish that the complaint as a whole merited the court's highest level of scrutiny. In the current litigation, the city in its separate action can point to the increased concentration of minority pupils in the large urban areas as compared to a decade ago. If their Title VI claims hold, the court might consider the plaintiffs a "suspect class," entitled to review at a higher level of scrutiny than the level applied by the Court of Appeals in *Levittown*.

Finally, the legislative history since the ruling in *Levittown* strongly argues that the legislature cannot be trusted to correct the existing imbalance in aid distribution without a firm court directive. The plaintiffs arguing for redress of New York City's case should ask the court for assurance of sufficient resources to help all children meet state standards. Their target is *not* the formula that the legislature promulgates, changes and adjusts each year to suit political exigencies, but the method that permits such adjustments.

Proposals for modifying existing formulas have gone unheeded

Over the years a series of commissions have been formed by Governors and the legislature, each charged with the task of evaluating the state's method of supporting public education and making recommendations for improving it. We have had the Swygert Commission report in 1993,[23] the Salerno Report in 1988,[24] the Rubin Report, 1982,[25] and the Fleischmann Commission in 1973,[26] the report of Edward Regan, former State Comptroller,[27] as well as the annual reports of the State Education Department[28] and the Board of Regents.[29] All have identified the underfunding of New York City schools and have recommended that the legislature repair existing inequities by increasing funding for poor school districts and strengthening programs in areas like New York City where there is a concentration of low-income pupils. The legislative corrections that have resulted have been totally minimal and ineffective. State aid for New York City

23. New York State Commission on Educational Structure, Policies and Practices, H. Patrick Swygert, Chairman, *Putting Children First.* 4 volumes, December, 1993.
24. New York State Temporary State Commission on the Distribution of State Aid to Local School Districts, Frederic V. Salerno, Chairman, *Funding for Fairness.* 2 volumes, December, 1988.
25. *New York Special Task Force on Equity and Excellence in Education,* Max J. Rubin, Chairman. Vols. 1-3, 1982.
26. *New York State Commission on the Quality, Cost and Financing of Elementary and Secondary Education,* Manly Fleischmann, Chairman. 2 volumes, 1972.
27. Edward V. Regan, New York State Comptroller, *Oversight of New York City Schools,* Report 88-S-182.
28. *The State of Learning,* February, 1994.
29. The New York State Board of Regents, *A New Compact for Learning: Improving Public Elementary, Middle and Secondary Education Results in the 1990's.* July, 1991.

does not begin to meet the pressing educational needs of city children. Only an effective legal challenge will correct the problem.

A number of options are open to us as citizens and advocates of improved educational opportunities for all children in New York State.

There have been four major strands to the reform proposals offered in response to these problems, as outlined in the introduction:

1. Redistribution of the responsibility for school funding between state and local school districts.
2. Realignment of tax sources or use of new combinations of taxes for the support of public schools.
3. Improvements in the educational process.
4. Governance reform within school systems.

Among these strands, this paper discusses ten options for improving New York State's system of public education. The following section gives a brief explanation and a short evaluation of each.

Section III. Solutions

Redistribution of the Responsibility for School Funding between State and Local School Districts.

Option 1. Full state assumption of school costs: *a shift in fiscal responsibility.* One way to eliminate disparities and provide a given level of educational funding for all is to have the state collect all the revenues to be used for public schooling and redistribute them among the state's school districts. Under this plan, full responsibility for funding the costs of public education is assumed by the state. No local funds are contributed. In Hawaii, the only state in which full state funding exists, a state Board of Education formulates a budget for schools and the legislature then reviews and must approve the Board's budget. The state distributes all school monies to school sites throughout the state. It retains responsibility personnel policies and oversight.

No other state has totally assumed fiscal responsibility for funding public education, but there is wide variation among the states in the extent to which they share the burden of public schooling with local school districts. Only five states (Alabama, Kentucky, New Mexico, Washington and Hawaii) provide 75 percent or more of total school revenues.[30] New York State levies no property taxes. Its revenue structure depends heavily on personal income taxes which accounted for 52 percent of all state revenues in 1993-94.[31]

Full state assumption of the costs of public education implies a major shift in revenue source. State funds, rather than local funds are called upon to cover the combined state and local costs of public school support in New York State, reported to be $23.6 billion for 1993-94.[32] Through an equitable plan for redistributing funds for school districts, a state which assumes full responsibility for raising and distributing school revenues can reduce or eliminate inequities in spending among the state's school districts. To meet the cost of the program,

30. U.S. Department of Education, Washington, D. C. *Public School Finance Programs*, Vol. 1, Table 2, p. 10. Federal aid is excluded from total revenues.

31. New York State Department of Taxation and Finance, Albany, N.Y. *New York State Tax Structure: History and Comparative Analysis*, August, 1994. Exhibit 1, p. 3.

32. *Analysis, 1992-93.* Table 1, p. 3.

a state might eliminate the authority of local districts to levy local property taxes and impose, instead a statewide property tax collected and distributed at the state level. Or, the state can dramatically alter the impact of the tax, shifting the tax burden from property to broad based state income or sales taxes. This would reduce the tax impact on local homeowners who pay property taxes and increase it for taxpayers throughout the state who would pay higher income and/or sales taxes. Full state assumption plans shift authority over educational spending to the state and eliminate discretionary spending at the local level, unless special provisions are built into the plan to provide for local options to raise supplementary funding from local property tax levies.

In 1972, the Fleischmann Commission recommended that New York adopt a full state funding plan in order to eliminate inequities in spending among the school districts within the state.[33] The plan was poorly received and quickly abandoned. Local districts did not want to relinquish control over school funding; many thought that it would result in a general "leveling down."

One advantage of a full state assumption approach would be that the state could eliminate many of the inefficiencies and duplications that now occur because the system is made up of so many small, independent school districts. About half of all the public school districts in New York State have enrollments of no more than 2,000 pupils.[34] Consolidating the many very small school districts could perhaps achieve some savings and improve delivery of services. The intermediate layer of regional school governance, the BOCES (Boards of Cooperative Educational Services) could be restructured to better consolidate administrative services for small districts, provide better services for rural areas and eliminate diseconomies in purchasing and service delivery.

Option 2. Full State funding of certain educational costs: a shift in functional responsibility. A modification of full state funding assigns state responsibility for only a portion of the total educational function, for example, the funding of basic educational costs and specified additional programs such as special education, compensatory education and other mandated expenditures. This is essentially the pattern in the state of Washington, which assumed the cost for basic operating expenditures and special needs, leaving building costs and such categories as the costs of discretionary transportation expenditures to the districts.

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33. *New York State Commission on the Quality, Cost and Financing of Elementary and Secondary Education,* Manly Fleischmann, Chairman. 1972.

34. State Education Department, Albany, N.Y. *Annual Educational Summary,* Year ending June 30, 1991. p. 10, Table 2, p. 4.

Full funding of basic educational costs

States that assume responsibility for funding basic education must define basic education precisely, determining what support services are included in the definition of covered expenditures. They must also determine to what extent local governments are to be permitted to supplement the basic allocation provided by the state. Many states have instituted support programs that provide a basic foundation grant sufficient to cover basic expenditures. State aid formulas typically attempt to adjust aid programs in response to district need (typically by providing extra "weights" for pupils that have extra needs and therefore are more expensive to educate) and to vary them according to each district's wealth (its fiscal capacity to raise revenues from its own tax base). State legislatures must decide at what level to set the foundation grant. Another dilemma that must be confronted in states where the state assumes a large share of total costs is the extent to which localities will be permitted to supplement state revenues with local tax levies. If the state permits wealthy districts to add on to state funding without limit, it will be difficult to achieve equity in spending; school district spending will continue to depend on the local school district's ability to raise local taxes. If it permits no local discretionary spending, it leaves untapped potential revenues that would otherwise be spent to educate children and it may "level down", to the detriment of all. Most states under court order to reform funding systems have resolved this dilemma by substantially raising allocations for all—generally in the form of a high foundation program, which usually requires a large increase in state funds for education.[35]

Full funding of instructional costs only

A variant of the idea of assigning the state the responsibility for funding basic educational costs is the option of assigning fiscal responsibility on the basis of the type of service provided. For example, the state could commit itself to fund instructional costs only and assign responsibility for other non-instructional costs to local school districts. The option has strong appeal to those who believe that local school districts do not spend wisely in fields that have little to do with education and waste funds that are too freely provided by outside sources, such as the 80 percent support of all expenditures for transportation that was formerly included in the New York state aid package. Leaving such activities as transportation, building, and food services to be fully paid for at the local level might encourage more efficient use of resources. However, it has been difficult to agree on the definition of non-instructional as opposed to instructional services for schools, especially in the area of administrative and support services.

Several proposals are on the table to reduce substantially the state's use of property taxes to fund education. Senator Cook introduced a bill that would permit, but not require, school districts to phase out all property taxes in return for

35. William H. Clune, *School Finance Reform: The Role of the Courts*, CPRE Finance Briefs, Rutgers University. February, 1993. p. 3.

State funding in return for voluntary elimination of local property taxes

assurances of a state-funded allocation of basic school aid. State funds would cover everything except capital costs, transportation and BOCES[36] costs. Districts would retain the option of levying local non-property taxes to supplement educational expenditures. The plan envisions a gradual shift in revenue sources as districts opted into the program and gradually reduced local levies on real property. The plan was expected to appeal to low-spending school districts in which operating expenditures as measured by approved operating expenditures per pupil (AOE) were below the ceiling level that would be proposed for the new law. More affluent districts presumably would be spending above this level and would not be expected to join the program. It was not stated in the bill what the spending level would be, so it was difficult to assess its impact.[36] A shift from local to state funding in New York State would mean that an important tax source, the local property tax would no longer be available to support public schools. The Cook bill does not envision the reuse of this tax source in another form, for example, a statewide property tax.

> • **BOCES:**
> Boards of Cooperative Educational Services are regional sub-divisions of the State Education Department with separate school boards. They are designed to provide supplementary services on a regional basis to participating school districts, primarily for special education and vocational programs. The dependent school districts are not eligible to join BOCES.

Consolidating operating aid

Option 3. Raising the state's support of operating costs: the Regents' approach. State aid is distributed in New York State through more than 50 aid programs, each governed by a formula or grant for a specific group of pupils or a specific educational purpose. The most important formula is the *operating aid* formula which is described as aid for "general operation and maintenance of the school district."[37] Operating expenditures include salaries, fringe benefits, and maintenance, but exclude debt service, expenditures covered by certain federal revenues and capital outlays.[38] Other costs, such as the costs of special education, transportation, and pupils with Limited English Proficiency (LEP pupils) are currently aided in separate state aid programs. The 1994-95 state aid formula that is now in effect consolidated 20 aid programs and set aside a category of aid called Extraordinary Needs Aid for districts with large concentrations of pupils in poverty. The formula changes proposed by the Regents for 1995-96 operating aid further consolidate aid programs. The Regents suggested

36. Peter S. Applebee, representing Senator Cook's office, in a presentation before the Educational Priorities Panel's Equity Network Meeting, April 6, 1994.

37. State Education Department, *State Formula Aids and Entitlements for Schools in New York State, 1994-95.* July, 1995.

38. Ibid.

including special education and aid for pupils with Limited English Proficiency in operating aid, as well as aid for the gifted and talented; special services aid (which formerly supported occupational education services in the big five cities); categorical reading aid; grants for improving pupil performance; for computer administration and hardware and for transportation services, excluding capital expense. The rationale was to eliminate the restrictiveness of separate grants, to increase district flexibility and eliminate features in the former funding scheme that encouraged placement of children in special education rather than programs in the least restrictive educational environment.

• Operating aid formula:
The operating aid formula provides about 60 percent of all state aids, and its pattern of adjusting aid for each district's ability to pay and student needs is echoed in many — but not all — of the other aid formulas that make up the total state aid package.

• Aid ratio:
Through the operating aid formula, the state shares the total cost of schooling with localities, using an "aid ratio" which adjusts for each district's relative local fiscal capacity — its local wealth per pupil compared to the average wealth per pupil for the state as a whole. The operating aid ratio is calculated for each district as 1— (.64 x CWR) where CWR is the district's relative wealth, or "combined wealth ratio." If a school district's wealth is average, CWR is equal to one and the contribution of the local school district is represented by 64 percent of the stated expenditure level. The state's contribution is represented by the remaining 36 percent. If a district's wealth is greater than average, the local contribution is greater and the state's conribution decreases. With this formula, aid is adjusted so that more is available to low-wealth districts, less to wealthy districts.

Recognizing the impact of poverty

The Regents recommend the renewal of the program to fund Extraordinary Needs in a separate aid program that is based solely on the count of pupils eligible for free and reduced-price lunches, the number of LEP pupils and the number of pupils in geographically sparse areas. The Regents suggest that this program be separated from basic operating aid, so as to reduce the likelihood that it would be effectively capped. "There should be no limit on the maximum or minimum amount of Extraordinary Needs Aid to be received," according to the Regents' proposal.

If enacted in its entirety, the Regents' proposal has the potential of substantially increasing aid for poor districts and cities. However, the Conference of Large City School Districts, the organization which represents the big five cities,[39] finds it threatening. They have written a letter expressing the concern that the legislature will consolidate small categorical programs such as categorical reading aid, aid for improving pupil performance, and special services aid into the basic operating aid formula and then fail to fund the formula adequately, or apply

39. Buffalo, Rochester, Syracuse, Yonkers and New York City.

• Expenditure "Ceiling:"

The state funds only a limited percent of a stated level of expenditure per pupil called the "ceiling." Under the formula, the state sets an expenditure level per pupil, or "ceiling," up to which it will share in each district's costs. The ceiling currently is $3,900 per pupil and, if the district's combined property and income wealth is average, the state will share (fund) 36 percent of that ceiling for each of the district's pupils; if the district's wealth is below average, the state provides more than 36 percent of the ceiling; if above average, less. Pupils are counted using extra weights to reflect a variety of pupil needs. So, in a district of average wealth, the state currently supplies 36 percent of the $3,900 ceiling, which amounts to operating aid of $1,404 for each weighted pupil in the school district.

• AOE:

Approved operating expenditures is a measure based on annual reports from school districts to the State Education Department. They are audited and include operating expenditures for the day-to-day operation of schools as defined in the education law. Not included are expenditures for building construction, transportation of pupils and some other expenditures. Money received as federal aid revenue, proceeds of borrowing and state aid for special programs are first deducted from total annual expenditures when approved operating expenditures are computed.

• Additional operating aid:

In order to help districts meet the rising costs of education and to encourage school districts to raise more funds locally (increase tax effort), a second level of operating aid adds funds according to each district's current expenditures per pupil and its local wealth. The formula's second level of aid adds, in the average-wealth district, 7.5 percent of the district's expenditure level (AOE) above the current ceiling of $3,900 per pupil, up to an $8,000 limit. The percentage applied varies according to each district's combined property and income wealth. For New York City, the approved operating expenditure per pupil was $5,040 and its combined wealth ratio varied for each borough but was close to the state average, so it received the 7.5 percent adjustment to the difference between $5040 and $3,900, which came to $85.50 for each weighted pupil in each of four boroughs (Manhattan, with its high property wealth per pupil received only a flat grant of $400 per pupil in operating aid). Second tier aid is highly equalized; that is, a higher percent of the difference between local expenditure and the ceiling is applied in poor districts and generates considerably more aid; in rich districts a lower percentage is applied, generating less aid.

• Weighting pupils by grade level:

The state aid formulas account for the additional costs of educating certain groups of pupils by adding weights for each of these pupils in attendance in the school district or bourough. For example, students are weighted by grade level as follows:

Each pupil in:	counts:
1/2 day kindergarten	.50
Full day kindergarten — grade 6	1.00
Grades 7 — 12	1.25
Summer School	.12

• **Weighting pupils by program**

PSEN: Pupils in need of compensatory services are weighted by computing the percentage of pupils in the school district, or borough who score below a minimum level on state-administered achievement tests in reading and math and multiplying the district's or borough's attendance by the computed percentage and then by a weight of 1.25

• **Special education:** Special education weights are based on the time spent by the pupil in a special education program:

Each pupil spending:	counts:
60 % of the day	2.70
20% of the week	1.90
2 periods a week	1.13
Or getting: Consultant teacher services	1.90

caps on aid for the large cities. In the past, small categorical aids were systematically used to correct imbalances in the formulas from year to year and to funnel aid as needed among the big cities. In today's political environment, the Big Five are understandably reluctant to relinquish the political bargaining cards that these categorical aid programs provide.

Raising the ceiling

The Regents' approach for 1995-96 would raise the expenditure level or ceiling for operating aid moderately to $4,000 per pupil and increase the state's share of local expenditures above that amount in the second tier of aid. It would increase the maximum aided percent of expense per pupil in the second tier of operating aid from 90 percent to 100 percent in the districts of lower wealth and would raise the minimum to a point above the current state average. The proposal recommends gradually phasing out save-harmless provisions.

It is worth noting that in 1994, the legislature incorporated the concept of using each district's own reported level of spending (its approved operating expenditures per pupil as reported each year to state accountants) as a factor in the formula's second tier of aid. To this extent, the legislature accepted elements of the proposal put forward by the State Board of Regents in that year - to substitute each district's annually reported approved operating expenditure per pupil for the current arbitrarily determined expenditure level of $3,900 per pupil.

If, in the suit now before the Court of Appeals, the court were to uphold the plaintiffs' demand that the state provide sufficient resources to support a sound basic education for every child, the present operating aid formula could be adapted to meet this requirement. Operating aid would be the main vehicle for delivering sufficient funds to cover basic costs. The present ceiling could be revised upwards, perhaps to the current median expenditure level of $8,000 per pupil (the maximum expenditure level now used in the second level of the present operating aid formula). The state's contribution to total expenditure (now 36 percent for an average-wealth district) would continue to be adjusted for district wealth and could be sufficiently increased to comply with the court's ruling. The change could be phased in over a period of years.

Realignment of Tax Sources or Use of New Combinations of Taxes for the Support of Public Schools

Part of the frustration with public schooling has to do with the taxes raised to support it. Taxpayers are complaining throughout the state about the ever rising property taxes required to support public schools. At the same time, the new Governor of the state has announced a program to reduce income taxes along the lines of the New Jersey model. This objective appears to conflict with the effort to reduce reliance on property taxes as a funding source for schools or local governments. New Jersey school districts are already feeling the pinch of higher property taxes as a result of the Whitman program.[40]

Option 4. Eliminating or reducing reliance on property taxes. In New York State, property taxes comprise 31.9[41] percent of all state and local taxes and they are levied exclusively by sub-state governments. Personal income taxes account for 31 percent of all state and local taxes; they are levied primarily by the state and two large cities, New York City and Yonkers. Sales taxes, taxes on corporate income and other fees and levies account for the remainder of state revenue. If the state were to reduce or eliminate property taxes, it would mean large increases in income tax levies and/or substantial increases in sales taxes and fees in order to fund public schools and other local services at even minimum levels. According to the findings of the panel on property tax convened by the Board of Regents in December, 1994, the tax is less burdensome than it is perceived to be.[42] The panel believes that the property tax could be significantly improved. They conclude that the property tax should not be abandoned, as it is *not* the source of most of the problems that the public is unhappy with. The property tax could be made less burdensome to low-income or elderly persons by extending the system of exemptions called "circuit-breakers" which now give tax relief to property tax payers in preferred categories such as veterans, the elderly and low-income home-owners. Some of these options will be discussed below.

Option 5. Substituting a local surcharge on income for property taxes. Ex-Governor Cuomo has suggested that independent local school districts be given the authority to levy income taxes in support of education.[43] Support for this approach came from one participant in the Symposium of School

40. *New York Times*, February 1, 1995. p. 1.

41. N.Y. State Department of Taxation and Finance, James W. Wetzler, Commissioner, *New York State Tax Structure: History and Analysis*. August, 1994. p. 73.

42. N.Y. State Board of Regents, *Study on the Generation of Revenues for Education*, Panel I, "Evaluating the New York Experience with the Real Property Tax," Hamilton Lankford and James Wyckoff, 1994. p. 58.

43. Mario M. Cuomo, Governor, press release, April 28, 1993.

Revenue, Robert Strauss of Carnegie-Mellon University.[44] Strauss offered a rationale for shifting totally to income taxes for the support of schools. He believes that the highest level of government in the state should both define and finance education and that funds should be redistributed to serve all children regardless of background. He computed the cost of replacing local property taxes for schools with a local income tax and determined that it would take a local income tax rate of 6.27 percent of AGI (adjusted gross income as defined on tax forms) to effectively eliminate all property taxes for education. If only the residential portion of the property tax were replaced, it would require a local income tax of 3.3 percent. Strauss concluded that the state could introduce a statewide mandatory income tax levy of 3 percent to replace the local school residential property tax, which would generate $8.4 billion and permit the state to redistribute $8,068 per student compared to the $8.8 billion distributed in 1992.

To consider this proposal it is necessary to distinguish between a shift to a state-mandated increase in the income tax or a voluntary levy that would permit local voters to approve or disprove an expenditure for schools. The former would transfer decision making to the state level in return for a shift toward a more progressive tax burden. The proposal could improve the distribution of school funds to eliminate existing resource inequities, but the extent to which distributional equity would be achieved would rest in the hands of the legislature.

The latter would require localities to decide on school spending based largely on the distribution of incomes, if the tax on both residential and commercial real estate is eliminated. If discretion to levy local income taxes were passed down to the individual districts, it would do little to eliminate inequities based on local district wealth. Furthermore, most jurisdictions would be wary of the effect of an increase in the income tax on their ability to attract and hold businesses and residents. Property cannot flee, but residents and businesses can and do.

A statewide property tax

Option 6. Modification of the Property Tax. A number of school finance reform plans would substitute a statewide property tax for the local levies now collected. Many states have adopted statewide property taxation in response to court orders that call for the elimination of disparities in spending. A statewide property tax was suggested for New Jersey, instituted in Michigan and has been proposed for New York State. The state would levy and collect all property taxes and redistribute them, giving the state authority over not only the distribution of all school funds, but considerable control over other local governments such as towns and villages. Local taxpayers object to this scheme because they feel that taxes raised on their own property should be returned in the form of services for their own schools and local functions.

44. *Study on the Generation of Revenues,* Panel III, "Reforming the Mix of Revenues for Education Coming from Local and State Sources," Robert Strauss.

Shifting from a local to a statewide property tax would eliminate some of the worst inequities in school spending levels. While property tax payers would still bear the burden of the tax, the benefits would be distributed in the form of school aid and would affect different groups of taxpayers very differently, depending on their use of public schools over time. If the purposes of the change in revenue source was equalization of school aid, the state could reallocate state-collected revenues to achieve this goal; inequities attributable to the uneven distribution of real property throughout the state would be substantially reduced. All school districts would have equal access to pooled state property tax resources.

Broadening the property tax base

Another way to equalize access to property tax resources is to broaden the property tax bases within the state. Wider geographic designations than the geographic boundaries of existing towns, villages or school districts could be used to define the tax base. New York State could authorize only counties, regional groups of school districts, Standard Metropolitan Statistical Areas (SMSA's) or groups of counties to levy the tax for schools. This strategy would cut down on the inequities that now prevail because school district boundaries so often encompass a limited range of property, sometimes enclosing enormously lucrative tax bases, sometimes very limited ones. For example, the development or closing of a large shopping mall, utility plant or factory within one school district can drastically alter its relative property wealth as measured by the state aid formula, thereby creating— or wiping out a major source of school funding in the district. It has been argued that a broadening of the tax base would be a fairer way to share resources, without extending the tax base to include the entire state.

In the state of Texas, county wide units have been used to respond to the Texas Supreme Court order to eliminate the gross inequities that occurred because of the unequal distribution of high wealth properties throughout the state. The Texas legislature created county educational districts or CED's which are actually superimposed over existing school district units and function chiefly as taxing units. Property is assessed and taxes collected on a county basis and returned to the districts in accordance with the statewide foundation formula. The CED scheme effectively eliminated the long-standing advantage of very wealthy school districts in Texas that were able to provide ample educational resources with very low tax rates. The plan was on its way to achieving more equity for the state's taxpayers and school children when it was found unconstitutional by the Texas Court in January, 1992.[45]

The author of the Texas study for the Symposium on School Revenues notes that a number of task forces and panels in New York State have advocated the use of the regional school tax base as a strategy for equalizing access to school tax

45. *Study on the Generation of Revenues*, Panel II, "Regional Taxing Units, The Texas Experience," Catherine Clark, p. 80-82.

resources. She noted that recommendations do not always lead to change; that it took a court order to move the state of Texas toward this reform. On the basis of the Texas experience, she believes that unless a regional approach is taken "it will be virtually impossible" to eliminate inequities in New York State because of the very wide disparities in full value that now prevail in New York State.

The advantages of regional equalization are that the regional unit would be fairer for tax payers and easier to administer than the present system. It could be designed to preserve some measure of local control and avoid consolidation of individual school districts. It would eliminate some of the inequities that arise because of local differentials in costs, because the county or regional units would be roughly co-terminous with geographic market areas. This approach could be combined with property tax reform and could attract political support by appealing to regionally congenial communities. It would not, however, address the inequities that prevail between major geographic divisions in the state (upstate/down state) or resolve inadequacies in the distribution of resources to cities where poor children are concentrated.

Partitioning the tax base

Since much of the property wealth available to school districts as a tax source is commercial, the variation in wealth frequently does not reflect the personal wealth or economic position of the resident tax payers within the school district. The tax on non-residential property is considered an appropropriate vehicle for financing schools because the taxpayers' interests are directly related to the benefits generated by the expenditures which the tax supports. This is less true for commercial property. It is also true that the uneven distribution of commercial property may encourage localities where such property is located to overinvest in education and may distort other economic decisions.

The uneven distribution of these properties produces serious inequities in access to funding sources throughout the state. One remedy for this inequity would be to treat the separate components of the property tax differentially. For example, the state could partition the property tax and assign the tax on commercial property to a higher level of government (the state or the county) while permitting local governments to tax residential property for non-school local purposes. The Swygert Commission proposed a combination of this option and a broadening of the tax base. It recommended that:

> *Legislation should be enacted to provide a fairer distribution of commercial wealth by taxing non-residential property on a countywide basis for school purposes.*[46]

Panel III of the Symposium on School Revenues tackled the question of the feasibility of removing non-residential property from the local property tax base, taxing it at a uniform rate and using it as a statewide revenue source for financing

46. *Putting Children First,* Vol. I., p.3.

public schools[47] Would it be fairer to taxpayers as well as school children to impose a statewide tax of commercial property and redistribute the proceeds? The answer turns out to be no. In their study of the impacts of such a scheme for New York State, the authors grouped school districts into seven types: downstate cities, downstate suburbs, New York City, the other big four cities, upstate cities, upstate suburbs and rural districts. They then determined the percent of all property that is classified as residential, commercial, industrial, agricultural or other for each group of school districts. The major finding of this exercise is that commercial property is unevenly distributed among different types of districts and is concentrated in New York City. Nearly half (47.8) percent of all property in New York State that is classified as commercial is in New York City; other cities account for most of the rest. The authors conclude that 1) a highly equalizing redistribution formula would be required to reduce spending differences across districts if the state were to remove commercial property and use it to fund public schools. 2) The policy could lead to highly undesirable results for New York City, and unless these can be mitigated, should not be considered.[48]

Improving administration of the property tax

There have been many criticisms of the way the present tax system is administered. Real property is surveyed by local tax assessors who apply standards that frequently vary in order to determine each parcel's dollar value. The state needs more funds to extend its programs for training local assessors and improving their performance. The state is responsible for determining equalization rates which convert local assessments into valuations that are comparable from one locality to another. The equalization process involves extensive surveys comparing values to current sales and past valuations. These surveys produce full valuation data on which state aid is based but they are sometimes so delayed that they reflect conditions seven or eight years out of date. More state funds are needed to make the surveys on which these rates are based more accurate and timely. At the same time, the income tax data for use in determining local school wealth have been flawed because of errors made by taxpayers who erroneously record or fail to record the school district in which they live, thereby subjecting the statistical determination of school district income wealth to error. These determinations should be made more accurate.

Experts on the property tax agree that it has many flaws and that many are the result of poor administration and ineffective tax policies.[49] According to the Panel on property tax reform convened by the Board of Regents in Albany, these could be addressed if the state would commit itself to improving the tax. Among the policies recommended were: adopting market value as the legal standard of

47. *Study on the Generation of Revenues,* Panel III, "Statewide Taxation of Nonresidential Property Education," Helen F. Ladd and Edward W. Harris.

48. Ibid., p.13.

49. *Study on the Generation of Revenues,* Panel I, "Evaluating the New York Experience with the Real Property Tax," Dick Netzer and Robert Berne.

value and requiring uniformity in defining it; improving the way in which properties are assessed by shifting to countywide assessments; improving the way commercial properties and utilities are assessed and reforming the system of assessing property in New York City and Nassau, which is now broken into separate property classes that are not assessed at the same percentages of market value.

Administrative practices and tax policies have increased the regressivity of the property tax in New York State, according to the Panel studying the issue for the Board of Regents.[50] The worst examples of regressive tax preferences occur because the New York City-Nassau classification systems tax rental property at much higher rates than the rates applied to single-family homes, co-ops and condominiums. These features, the authors of the report found, not only contribute to the regressivity of the tax in New York State but they are not typical of the tax as it is used throughout the nation. The authors suggest beginning reform of the property tax by making the circuit-breaker more generous and making it easier to apply for circuit breaker relief.

The property tax could be made more progressive through a greater use of circuit breakers - provisions which exempt from the tax or reduce liability for certain groups of taxpayers such as veterans, the elderly or those with low-incomes. Circuit breakers erode the tax base, reducing the revenues derived from it. For this reason, states resist pressure to extend circuit breakers, in favor of other strategies to attain the same goals.

Improvements in the Educational Process

Raise graduation standards and enrich the curriculum

Option 7. Establish new standards. For many, reforming our system of public education means, above all, raising educational standards and improving the process of teaching and learning. At the national level, Congress passed the *Goals 2000: Educate America Act in 1994,* setting goals for school improvement and offering each state support for setting and moving toward higher educational standards.[51] Governors have joined to establish a set of state goals for education: Setting new goals for education was built into the reforms ordered by courts in several states, notably Kentucky and New Jersey. Following this trend, the State Education Department in New York and the Board of Regents have promoted the raising of academic standards in schools throughout the state. They have encouraged schools to offer more advanced courses and to raise requirements for graduation. They have endorsed new ways of assessing pupils including performance evaluation as a supplement to routine testing.

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50. Ibid., p. 42.
51. *ERIC Review,* "What Goal 2000 Means for You," Vol. 3, Issue 2. Fall, 1994. p. 10.

The current lawsuits initiated by the Campaign for Fiscal Equity and the Board of Education cite newly promulgated state definitions of the kinds of skills and understandings that students should acquire in the course of their schooling as standards for a basic education in the state of New York. Therefore, in New York State, the court need not invent a new set of standards; it can direct the legislature to accept the standards already promulgated as a guide to defining an adequate education for all pupils in the state. What the court can add, and what the plaintiffs in the current law suits should demand, is a directive to the legislature to ensure that the state provision for education, in combination with local resources in each district, is sufficient to meet state standards of adequacy.

Option 8. Improve teaching and learning through school-based decision-making. School based management (SBM), has been hailed as a way to involve parents, teachers and citizens, and sometimes students, in the educational process. SBM is endorsed by the New York State Board of Regents, which has proposed, in both its Action Plan and its *New Compact for Learning,*[52] a systematic procedure to encourage greater participation by parents and citizens in decisions that affect each local school site. In Kentucky, the court mandated a school-based decision making process in which parents and citizens would be represented on school councils. The court in New York could endorse the Regents' plan to encourage school based management councils with parent, teacher and citizen participation.

Governance Reform

Option 9. Restructure the New York City school system. In New York City, Mayor Giuliani has made clear his intention to reorganize the present educational bureaucracy. This issue has become highly politicized, with borough presidents supporting a relocation of authority from the central board to borough boards. In a recent proposal, a mayoral advisor, Edward Costikyan, suggested abolishing the central board and replacing it with borough boards modeled on the state regional BOCES. He suggested that a great deal more authority be shifted downward to the individual school site, including an increased role for local school councils in the budget process.[53] Studies show that unless decisions involve meaningful deliberations of such issues as budgets and the use of personnel, they can be frustrating and a waste of time.[54] A greater shift in authority

52. New York State Board of Regents, *The New Compact for Learning*. 1991, Albany, N.Y.

53. Edward N. Costikyan, *Report to Mayor Giuliani, June 29, 1994.*

54. David H. Monk and Jennifer King, "Cost Analysis as a Tool for Education Reform" in *Reforming Education: the Emerging Systematic Approach*, American Education Finance Association, Stephen L. Jacobson and Robert Berne, eds. (Thousand Oaks, CA.: Corwin Press, Inc., 1993). pp. 131-149.

to lower levels of school governance entails greater control by parents as well as teachers over not only curriculum and staffing decisions, but over fiscal decisions. It involves working out procedures to assure fiscal accountability, legal compliance with judicial and contract requirements as well as state and federal regulations. It requires a new system of making information available so that all participants can understand the basic budget and resource distribution issues that would become the business of local school councils.

Option 10. Grant fiscal independence to dependent school systems. Proposals for restructuring the New York City school system and other dependent school districts have recommended some form of fiscal independence for large city school districts.[55] Independence might be patterned after the kind of fiscal independence extended to small city school districts in New York State. Cities with a population of less than 125,000 were given the authority to levy property taxes in support of schools in an amendment to the Constitution ratified by the voters in 1987. At that time, the tax limits that had formerly restricted the small city school districts' ability to levy school taxes were removed and no restraint was imposed requiring them to obtain voter approval of proposed school budgets.

Extend independent status to the big five school districts

Fiscal independence for large city school boards in New York, Buffalo, Yonkers, Syracuse and Rochester would free them from the local municipality. The state would require some form of budget accountability, either in the form of a tax limit, or a budget vote such as that required in other independent school districts. The latter option is impractical for large cities, because so many voters in the large cities do not have children using the public schools and would have little reason to support school budgets. Where a large portion of the eligible voters are renters and do not pay property taxes directly, their votes on school budgets would not fairly relate to their own pocketbooks; they would be making decisions about other people's money. Therefore, some form of fiscal accountability other than a citizen budget vote is needed.

New York State has delegated that taxing authority to local boards of education in small cities (those with populations of less than 125,000), but, until 1985 that authority was restricted under the constitution by tax limits which controlled the size of each city's proposed budget in relation to its available tax resources. If the legislature chose to make the newly independent city school districts fiscally independent as well as independent in the sense of managing their own educational policies, it could grant them taxing authority within prescribed limits within which they could raise local funds to supplement state aid as other independent districts do now.

55. For example, the Regents' proposal for 1995-96 School Aid.

Maintenance of effort

Fiscal independence would resolve the maintenance of effort problem that has plagued the large city school districts. Dependent school districts in New York state have the dual problem of serving two masters; they are accountable to the state and yet must apply to their municipal government for their funds. They cannot count on receiving all the state aid that is allocated to them by the state legislature. State education aid for New York City has been treated as aid to the municipality; it is collected by the municipality and enters the municipal revenue stream. At present, there is no guarantee that when state aid for the New York City schools is increased by the legislature, the Mayor and the City Council will pass on to the schools the full amount allocated by the legislature as New York City school aid.

To correct the tendency of New York City's municipal governments to siphon off state education aid funds and apply them to other functions, the legislature passed the Stavisky-Goodman Law in 1976. It required the City to budget at least the same percentage of the total city budget each year as it had, on the average, for the previous three years. The bill failed to do the job, because it was too easy to adjust the way city budget figures were presented. City budget totals could be adjusted each year to produce the stable percentage that the Council deemed appropriate — about 25 percent of the total, pensions and debt service included.

A revised "maintenance of effort" bill which would have covered not just New York City but all the dependent cities passed both houses of the legislature last spring. It would have defined maintenance of effort in per pupil terms, protecting the flow of state aid in periods of enrollment increase and making it harder to circumvent the intent of the bill. But, in an unusual action, the bill was never sent to the Governor for his signature. In a recent announcement the new Governor vetoed this "state aid" bill, in order to "save" New York City $70 million.[56] The $70 million "saved" represents $70 million less for New York City school children.

Full state funding of instructional services

It makes no sense for professionals and elected representatives in dependent school districts to depend as they now must, on municipal government for decisions on how to allocate available funds for education. They should receive state support as other districts do, directly from the state. Because the state already has the authority to create independent school districts, it could grant a limited independence to the five large city school boards by directing state aid to the school district instead of the municipality. If school aid for basic educational purposes only went directly to the school districts to be used at the discretion of the local board, the maintenance of effort problem would be resolved in a way that

56. *New York Times*, November 23, p. B4.

requires a minimum of new legislation or constitutional redesign. Educators would have discretion over funds intended for instructional purposes; other functions could be left under the control of the municipality. If this idea were combined with full state funding of instructional costs, school boards in the big five cities would need no additional revenues; they would not need any new authority to raise funds or levy taxes. Instructional services would be covered by state funds and non-instructional costs or needed supplementary expenditures could be met by the municipality and supported by tax levy. Full state funding of instructional expenditures would save municipalities the cost of supporting instructional expenditures in the large cities, but they would receive no state aid for non-instructional expenditures. Some savings in these areas should result.

This restructuring would eliminate much of the managerial duplication and political energy that is now squandered in budget squabbles between city councils, Mayors and city boards of education. It would avoid the tedious struggle over maintenance of effort that now takes place in New York and other large cities every year because state education aid that is voted on by the state legislature flows to the dependent cities as municipal revenue with no guarantee that it will be passed along for school use as the legislature intended.

Section IV. EPP's Proposal

A Model that Weaves Together the Major Strands Under Discussion for Reforming School Finance in the State of New York:

1. First, the court should ensure funding stability by defining a standard of reform which would preclude the annual tinkering and adjustment that, in the past, permitted the legislature to renegotiate the aid distribution according to political considerations every year.

2. The court could require the legislature to support public schools with sufficient resources to meet standards established by the state for an adequate education for every child. It could accept the Regents' educational standards as defining a basic, or adequate education.

3. The court could require the legislature to fund fully operating expenditures for all pupils, including special education pupils and pupils with limited English proficiency and other pupils with special needs, leaving other costs (transportation, school lunch, building costs etc.) to be paid for entirely by the local school district or municipality.

4. The legislature should be required to grant limited independence to the Big Five City school districts and authorize them to receive funds directly from the state funds for instructional purposes. Boards of education in the big five cities would not need independent authority to raise revenues; sufficient funds would come from the state to cover instructional expenses. They would have discretion as to how to dispense these funds, consistent with state regulations. The full cost of non-instructional expenses would be supplied by the municipality out of local tax levies.

5. The legislature should encourage the school site management process as outlined by the Board of Regents;

6. The legislature should distribute Extraordinary Needs Aid sufficient to meet the standards promulgated by the Regents to school districts with concentrations of students in poverty.

This plan offers one model for remedying the major complaints of plaintiffs now challenging the state's system of financing public schools. If the state would assume the major burden of supporting instructional costs in all schools, an adequate education would be assured for all children and taxpayers would realize a major reduction in property tax burdens. The plan does not involve new costs, but does shift costs from municipalities and localities to the broader base of statewide taxes. It gets the state out of the business of supporting non-instructional expenditures and encourages greater efficiency in the provision of these services by removing state supports for them.

The plan would offer room for further changes in school governance that are now under discussion. For example, changes in the role and authority the community school boards in the City of New York and many more reforms could be reexamined, once there was assurance of a stable revenue source to cover basic expenditures.

Conclusion:

This paper has presented an overview of the school finance issues now culminating in a series of court cases. We have described the cases, commented on relevant experience in other states and summarized some of the remedies that the legislature might apply if the court found in favor of the plaintiffs in the case. The options are not mutually exclusive, parts of each of the strands discussed above could be incorporated in a revised plan.

We have offered one comprehensive model that recognizes educational standards already established at the state level and encourages improvements in educational attainment. It would provide sufficient state aid for basic instructional services and deliver aid directly to the boards of education in New York, Buffalo, Rochester, Syracuse and Yonkers, ensuring that state funds are used for educational purposes, not municipal functions in large cities. In independent school districts, the state would move toward full funding of instructional costs, leaving expenditures for non-instructional costs to be supported out of local tax levies at the discretion of the local school district. At the same time, the plan would continue to encourage control over the use of all resources by parents and teachers at the school site.

Appendix: State and City Examples of Reform

Experience in other states and cities as well as past experience in New York State provide both models for reform and cautionary tales. About 30 cases are currently being adjudicated in state courts throughout the nation. Based in part on discussions held at the Educational Priorities Panel's forums on school finance reform, the experience of five states in which courts overturned existing school finance schemes is discussed below and summarized in the chart at the end of this section. The chart covers five selected states. It shows, for each state, the principal claims of the plaintiffs and offers a brief summary of the court's ruling. To point up differences among states, the chart shows the level of expenditure per pupil provided by the state, along with its national ranking in terms of school spending and the governing educational clause in the state's constitution.

As the chart illustrates, experience varies widely among states, even among those in which challenges to the existing system were successful. Differences in approach and outcome have occurred over time. The early challenges were brought under equal protection clauses of both the federal and state governments.[1] Following the seminal federal case, *San Antonio v. Rodriguez*[2] in which the United States Supreme court declined to declare education a "fundamental interest," plaintiffs in the early 1970's turned to state constitutions to press their claims. They sought to demonstrate wide disparities among school districts within the state in order to prove, under the equal protection clauses in state constitutions, an unequal impact on their clients. In states in which the constitution's educational clause called for a high level of state provision for public education, plaintiffs were able to bring successful challenges. They could argue that the system of providing education in their states was not "thorough" or "efficient" or "uniform" as the constitution specified. The wording of state constitutions controlled the way courts treated each case.[3]

Remedies often focused on tax payer equity as well as equity for students. Courts in Texas and California ordered states to refashion school finance schemes to ensure fiscal equity. State legislatures were required to redesign distribution plans so that the wealth of a school district would no longer determine its level of spending. In Texas, the legislature's attempts to meet this standard of "fiscal neutrality" were rejected repeatedly by the court. Texas is still in the process of trying to fashion a school finance plan which will be fiscally neutral, retain some measure of local control and keep within state budget restraints.

In New Jersey, the courts required the legislature to redesign the aid plan and provide additional aid to bring spending in the state's poor urban districts up to the level of the wealthiest districts in the state. The legislature's plans to reform the funding system called for a new equalization formula and significant new allocations of state aid for the urban school districts. The change required new state revenues and under Governor Florio an income tax was instituted, a move that contributed to the Governor's subsequent political demise. The new Governor was able to marshal anti-tax sentiment in the state behind a program of tax reduction that will make it increasingly difficult for the legislature to implement the New Jersey high court's school finance order.

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1. David C. Thompson, Julie K. Underwood and William E. Camp, "Equal Protection Under the Law" in *The 1990 American Education Finance Yearbook*, Deborah A. Verstegen and James G.Ward, eds. pp. 317-334.
2. *San Antonio Independent School District v. Rodriquez*, 411 U.S.
3. If judges decide that education is a "fundamental interest" of the state, they can subject the legal claim to a standard of "strictest scrutiny." In New York the Appellate Division in of *Levittown* used an intermediate level of scrutiny to review the plaintiff's equal protection claims, but the highest court rejected this approach and required the claims to meet only a rational standard test.

In the late 80's, state legislatures responded to court orders to restructure education funding with measures aimed at improving educational results rather than redistributing existing educational revenues. The higher state revenues available in those years enabled legislatures in states like Kentucky, New Jersey and Texas to propose plans in which a state-assured minimum level of spending for each pupil (or "foundation level") would provide the basic aid for each district.[4] High foundation plans had the advantage of raising levels of educational spending and, in the short run, reducing inequities in pupil spending among school districts within the state. At the same time, they substantially increased state costs.[5]

Plaintiffs have brought successful challenges to state funding systems on the grounds that state funding plans failed to provide an adequate or a basic education for all children. Where, as in New Jersey or Kentucky, constitutional clauses called for an ample provision of aid, or a "thorough and efficient" system of education funding, plaintiffs' claims were strongly upheld in the courts. Even in states where educational clauses in state constitutions were less explicitly related to outcomes, courts have acknowledged that standards promulgated by the state are relevant as tests of whether the state is meeting its constitutional obligations.[6] Currently, defining what is meant by an adequate education has become a task that is well within legislative purview. A set of national goals, *Goals for the Year 2,000,* has been put forward for raising educational standards throughout the country. State governments and departments of education have responded by establishing statewide goals and encouraging localities to create their own. Courts in New Jersey, Kentucky, West Virginia[7] and Alabama[8] spelled out lists of expected outcomes to guide legislatures in determining resource allocation. The clause in a state's constitution that requires it to provide for the education of all children has been interpreted as requiring that the state ensure for every child at least a minimum level of educational resources. In New York, plaintiffs in the pending New York City lawsuits have claimed that New York State's system of funding education fails to meet its constitutional obligations on these grounds.

Based in part on discussions held at the Educational Priorities Panel's forums on Equity in School Finance, the experience of five states in which courts have overturned existing school finance schemes is discussed in more detail below. We have also included Chicago as an example of how a city school district can also be restructured.

NEW JERSEY

New Jersey's system of financing public schools was challenged in a series of court cases culminating in the New Jersey Supreme Court decision in 1990, *Abbott v. Burke.* The case claimed that New Jersey's system of school support violated that state's constitution which required the state to provide children with a "thorough and efficient system of free public schools."[9] The clause permitted the New Jersey Chief Judge to remand the case several times to the legislature and to require that the state raise the level of funding in 30 poor urban school districts to that of wealthy districts in the state.[10] In his decision, the Chief Judge found that there were gross disparities in educational opportunities between the affluent school

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4. Allen Odden, "School Finance Reform in Kentucky, New Jersey and Texas," *Journal of Education Finance,* Vol 18, No.4. Spring, 1993. p. 295.rm in Kentucky, New Jersey and Texas,
5. Austin D. Swanson and Richard A. King, *School Finance; Its Economics and Politics.* Longman, 1991. p. 158.
6. *McDuffy v. Secretary of Education,* 415 Mass. 544, 618 (Mass.) (1993).
7. West Virginia's case was *Pauley v. Kelly* 255 S.E. 2d. 859 in 1979 and *Pauley v. Bailey,* 324 S.E. 2d 128 (1984).
8. *Harper v. Hunt,* CV-91-0117R (1993).
9. Steven D. Gold et al., eds., *Public School Finance Programs of the United States and Canada, 1990-91,* vol. 2. (Albany, N.Y.: Nelson A. Rockefeller Inst. of Government, SUNY, 1992). p. 369.
10. *Abbott v. Burke,* 477 A. 2d 1278 (1984), 495 A. 2d. 376 (1985) A-140/141-93.

districts in the state and the poor urban school districts. He interpreted the "thorough and efficient" system of education to mean one that would equip each child to function in a complex modern world and to compete with his peers in contemporary job markets.[11]

In response, the New Jersey legislature enacted the Quality Education Act (QEA) which provides for a basic allotment of state aid tied to the growth in state personal income over a four year period. Aid is adjusted for each district according to ability to pay as measured by both property and income wealth. District spending is limited by caps which can be waived by action of local voters or by special application to the State Education Commissioner. "Special needs" districts were established for thirty urban school districts with high levels of poverty, low school expenditure and concentrated minority populations. Since the enactment of QEA, there has been constant litigation and dispute about the apportionment of funds. The plan of the legislature to fund special needs districts was deemed inadequate by the State Supreme Court in 1993. In the present climate of tax reduction, the special needs districts have been fighting an uphill battle to see that the directives of the court are fully implemented.

Comment:

New Jersey's experience is important for New York City reform advocates because like New York, New Jersey is a state in which the level of spending ranks at the top of the nation.[12] Like New York State, it tends to be politically polarized with relatively affluent suburban communities in close proximity to urban centers where minority pupils are concentrated. Although the constitutional clauses governing education differ substantially in the two states, New Jersey's experience demonstrates how a court can press forward with significant change and how a group of urban districts can win targeted aid by demonstrating serious underfunding.

From New Jersey's experience, New Yorkers can also learn how confrontational educational reform can get. New Jersey's lawsuit precipitated an extended battle over revenue sources in the legislature and in the media. It resulted in the first imposition of an income tax in the state, an act which proved so unpopular that Governor Florio was subsequently defeated and his opponent elected on the promise that the income tax would be eliminated and other taxes drastically reduced. The drama in New Jersey has not ended.

KENTUCKY

Kentucky was one of the states in which the constitutional mandate for an efficient education was broadly interpreted by the court. In *Rose v. Council for Better Education, Inc.*, the court called for total revision of all aspects of the educational system and spelled out a set of outcomes that a revised education would be expected to achieve.[13] The order was the broadest directive to be handed down by a court in recent school finance experience. The action, brought in 1989, was a relatively recent entry into the school finance litigation arena. It was brought in a state which had ranked just about at the bottom of all national indicators —in literacy, school spending, local wealth. Even after reform, Kentucky ranks 31 out of 50 in terms of current expenditures per pupil.

The reform turned the educational system of the state around, bringing standards up and increasing state support in a state which had been close to the bottom in relation to others in the nation. It achieved thoroughgoing change by building a strong consensus of business leaders, influential citizens and politicians who were able to work together and are still supportive of the effort. It effectively changed, not only methods of funding education, but the approach to teaching and learning by defining broad, life-related standards for all children and emphasizing educational outcomes rather than outmoded inputs.

11. Ibid., Opinion of the Court, June, 1990.
12. New Jersey ranks first and New York fourth in Current Public Expenditure per Pupil, for 1991-92, *National Education Association, Rankings of the States, 1993*. Table H-9, p. 60.
13. *Rose v. Council for Better Schools, Inc.*, 790 S.W.2d 186 (KY. 1989).

Comment:

The experience in Kentucky offers encouragement to advocates of reform because it demonstrates that a strong consensus for change and unity of purpose among private citizens can totally revise the existing system of public education. But its relevance for New Yorkers is limited. The scale of the educational enterprise in Kentucky is small; its entire statewide student population is about two-thirds the size of New York City's enrollment. It has 176 school districts. Ranking as it did, at the bottom of all educational indicators, there was nowhere to go but up. Not surprisingly, its responsible citizens were ready for change. Just as important, perhaps, Kentucky's teachers were not represented by strong unions and there were few special interest groups who were organized to resist reform. The Governor and other influential citizens were committed to the change and the amount required to initiate it, $1.5 billion, was acceptable to the legislature.

CHICAGO

Chicago's school reform offers an example of how the governance of a public school system in one large city was totally decentralized. The law revamping Chicago schools grew not from a court case, but was the result of concerted and sustained pressure applied by the Chicago Panel on Public School Policy and Finance and other members of a broad coalition of civic groups. Its major feature was a shift in authority from a central school governing body to parents and teachers in councils formed at the individual school site.

Real authority was passed downwards. School councils were assigned control over the budgets for their schools. A basic funding allotment was provided for all schools, whatever the income level differences among them and $450,000 was apportioned in discretionary funding to each school. Principals were not awarded contracts with tenure; they were given four-year performance contracts with the local school councils. Principals were given increased authority over hiring and provisions governing teacher seniority were rolled back.

Chicago parents now have a major role in school-based decision making. The law requires that they constitute a majority of each school council. Students, too, are represented on the councils at the high school level. The heightened role of parents, students and community members in educational decision-making was viewed with alarm by outsiders when Chicago first opened schools under the new plan in 1991.[14] Budget issues surfaced as the Interim Central Board faced deficits in excess of $200 million.[15] Reports described a disorganized opening, with clamoring parents at odds with teaching professionals. There was skepticism about the ability of the newly constituted school councils to keep order, to handle funds responsibly, to resist nepotism. There were questions about the extent to which the shift in the locus of authority would improve teaching and learning in the classroom. Litigation clouded the implementation of the change and the reform act was first held unconstitutional, then revised to meet constitutional standards.[16]

According to close observers of the process, after four years, the new plan for Chicago schools has settled down.[17] Reports on the effectiveness of the system indicate that a significant transfer of decision-making authority was achieved. The major organizational

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14. G. Alfred Hess, Jr. *School Restructuring, Chicago Style.* (Newbury Park, Cal.: American Education Finance Association, 1991), and "Decentralization and Community Control" in *Reforming Education: the Emerging Systemic Approach.*
15. *Reforming Education*, p. 69.
16. Ibid.
17. Ibid., p. 70.

problems that characterized the opening of school at the beginning of the power shift appear to have been resolved. Researchers have found that funds have been more equitably distributed and that more resources have been focused on disadvantaged pupils. However, while the local school councils could review budgets and make requests, they had only a limited amount of discretionary money to reallocate.[18] Of the entire budget for Chicago schools, only $40 million was assigned to the councils to reallocate at their own discretion.

Spokesmen for the system view the changes as an on-going process. Studies have found that one third of the schools in the system have developed more democratic patterns of governance and that those with strengthened democratic practices tend to show educational gains. Reports indicate that schools that have undertaken school-based budgeting are using money well, that the system has gained in the number of teachers and reduced its count of administrators. Of the schools covered in one study,[19] one third were reported to be engaged in significant restructuring, another third is making improvements and in the remaining third, reform has had little effect. Commentators are not ready to assert that the changes in governance have had a measurable affect on student outcomes. Analysts say simply that it is too early to tell.[20]

The overwhelming problem facing Chicago schools is a huge budget deficit of more than $300 million, about $750 per pupil. Prohibited from opening with an unbalanced budget by state law, the schools have been forced to borrow at heavy rates financed by such revenue sources as casino gambling.[21] This crisis delayed the opening of Chicago schools this fall and it took a court order to override the law to reopen the schools. The issue of how to pay for schools in this city and in the state of Illinois is again being debated. New lawsuits have been launched, and the search for remedies to equity issues continues in the state, despite major governance restructuring.

Comment:

Although not a panacea, Chicago's experience with decentralization offers us an example of how a large urban system can move from bureaucratic, centralized control to real school based management. It shows that a more democratic sharing of decision making can work in ordinary urban public schools, but will work well in some, not so well in others. For the time being, Chicago's experience leaves unresolved the question of whether radical reform in governance has a positive impact on teaching and learning.

WASHINGTON STATE

In the state of Washington, school finance litigation began in 1974 with the case Northshore School District No.417 v. Kinnear.[22] In a split decision the court found the Washington system rational and the provision for education through state and local levies sufficient to meet the constitutional mandate. But, while the case was pending, the state legislature, perhaps anticipating the invalidation of the state school finance system, began to spell out the meaning of "a basic education."[23] The Washington constitution requires that the

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18. *School Restructuring, Chicago Style*, p. 206.
19. Newsletter of the Chicago Panel on School Policy, "A View from the Schools: Reform Gains Real — but Fragile." p. 1, Summer 1993.
20. G. Alfred Hess, *Reforming Education*, p. 73.
21. *State Budget and Tax News*, Vol.12, No. 20. p. 6.
22. *Northshore School District No. 417 v. Kinnear*, 530 P. 2d 128 (1974) and *Seattle School Dist. No.1 v. State*, 90 Wash., 585 P. 2d 71 (1978).
23. Joan Scheuer, "School Finance Cases in the State of Washington: Some Implications for New York City," Memorandum to the Deputy Chancellor, New York City Board of Education, July, 1977.

state "make ample provision for the education of all children." The clause was interpreted by the court as requiring a system of financing education that was "liberal, unrestrained, without parsimony, fully, [and] sufficient." The court held that staffing ratios were the most significant factor in determining the cost of education within a district and "must be considered in framing any definition of basic education."[24] It found that the state's constitutional duty "embraces broad educational opportunities needed in the contemporary setting to equip our children for their roles as citizens and as potential competitors in today's market as well as in the marketplace of ideas."[25] The court's broad definition clearly extended the state's responsibility for the outcomes of public education, following the opinion of judges in New Jersey and setting a precedent for the decision in Kentucky, where a child's ability to compete on an equal footing with his peers was cited as a recognized goal of state policy.[26] In the course of litigation, the state of Washington responded to court orders by restructuring its school finance system. In 1977, the state assumed full responsibility for funding the basic education program in the regular K-12 program.[27] In 1983, the court directed the state to fully fund special education and bi-lingual and remedial programs and transportation costs that were beyond the control of the local district. The authority of local school boards to set salary levels was sharply curtailed, and the state established statewide salary allocation schedules. To meet the costs of the new plan, the state enacted a statewide property tax and sharply restricted the discretion of local school districts to levy property taxes.

Washington is often cited as a state in which full state funding has been achieved as a result of reform efforts in the last two decades. The state contributed about 87 percent of general fund revenues in the first years of the program, but its portion of school spending has declined in recent years to 73.7 percent.[28] State funds are provided largely by a statewide property tax, and distribution is based on a formula that distributes aid according to program content, staffing and compensation levels and available state resources. The balance is raised in the form of local property taxes which have accounted for a larger share of total school funding each year, as local districts exercise their limited option to add to the educational program. The judges in the state of Washington had a strong constitutional mandate to enforce their decision to override considerations of local control. According to Mr. Keithly, their decision was supported strongly by the state's largest employer, the Boeing Company.

Comment:

The shift to statewide funding of education in the state of Washington effectively reduced inequities in spending throughout the state. State revenues provided sufficient funding to meet basic educational needs because these were carefully defined by the court. The disadvantage of the plan and the characteristic that makes it a problematic model for New York, is its high degree of centralization at the state level. Salary levels as well as allowable staff units are determined at the state level. The experience in Washington, like Kentucky's, illustrates how influential citizens, backed by business and with strong support from the Governor can change the system and significantly improve its overall equity.

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24. *Seattle School District No.1 of Kings County, Washington v. State of Washington*, Memorandum of Opinion, p. 47-53.
25. Quoted by Molly McUsic in "The Use of Educational Clauses in School Finance Reform Litigation." *Harvard Journal on Legislation*, Vol. 28, No. 2. Summer 1991. p. 335.
26. Talk by Perry Keithly, former Assistant State Superintendent of Public Instruction, Washington State, before the EPP Equity Network Meeting, April 6, 1994.
27. *Public School Finance Programs*. Vol. 2, p. 541.
28. Ibid.

CONNECTICUT

The experience of recent school reform initiatives in Connecticut offers an example of how reform can flounder if not backed by broad based public support. In response to court decisions in the late 1970's, Connecticut instituted a "guaranteed tax base" plan designed to yield equal resources for equal tax effort. The plan succeeded in reducing expenditure disparities among towns but failed to supply sufficient funding to many areas of the state, especially for large cities. In 1990 a modified foundation plan was introduced, with uncertain results.[29] A Commission on Educational Excellence was appointed by the legislature to draft a plan for extensive reform.[30] It recommended a series of academic standards establishing what children should learn and providing for tests to be sure they did so. Teachers were to focus less on grading, more on helping every child meet the standards.

Comment:

According to newspaper reports, the plan failed because its advocates failed "to convince the public, particularly urban parents, that sweeping change was needed." Opposition to the plan came largely from parents in affluent suburban towns "home to some of the nation's finest schools," who feared that setting standards at the state level would drag all schools down to mediocrity. According to one report, "The plan's natural allies, the parents of city children, were rarely heard from." This is a cautionary tale for New Yorkers.

MICHIGAN

Michigan's attempts to eliminate local property taxes should alert New Yorkers to some of the problems that such a shift in revenue source implies. In July 1993, the Michigan legislature adopted Senate Bill 1, voting to eliminate all local property taxes as a source of operating funds for education. School finance had been at issue for 20 years in the state of Michigan. Court cases initiated in the 1970's had lost because the state's education clause was not strong.[31] By 1990, the state funded only 30 percent of total education costs,[32] using a guaranteed tax base plan. The state contribution was supplemented by local levies funded by property taxes requiring voter approval. Large increases in property taxes and widespread, growing inequities had provoked both a new court challenge and a series of votes to amend the state constitution by substituting alternative tax sources to finance public education.[33]

In 1990, the Republican candidate, John Engler, won the Governorship on a platform of reducing property taxes. Democrats responded by introducing their own property-tax reduction plan. It was a Democratic Senator, Debbie Stebenow, herself a candidate for Governor, who proposed one night in July the total elimination of local property taxes for schools. As if responding to a dare, the legislature adopted the proposal before the break of day. The new plan first simply exempted all real and tangible property from the tax levy for public schools. It made no provision for replacing revenues. Following its passage, the Republican Governor proposed an eight point program for funding schools which would increase the state's share of education costs, guarantee a high minimum subvention for each child and restrict increases for wealthy districts. His plan included a controversial provision encouraging the creation of charter schools. His revenue proposals included a state-levied tax

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29. *Public School Finance Programs.* Vol. 1, p. 141.
30. *New York Times,* "Opposition by Suburban Parents Dooms Connecticut School Proposal." May 4, 1994. p. B1.
31. *Milliken v. Green,* 389 Mich 1, 203 N.W 2d 457 (1972) and *Milliken v. Green,* 232 N.W. 2d 711 (1973)
32. C. Philip Kearney, paper delivered at the American Education Finance Association Conference, Nashville, Tennessee, March 17-19, 1994.
33. *Public School Finance Programs,* vol. 1, p. 287.

on property and new taxes on commercial real estate. To help replace the $1.8 billion in revenues formerly generated by local property taxes,[34] the Governor suggested raising the sales tax from 4 to 6 percent, a measure that required voter approval of a constitutional amendment. Eventually, the Michigan legislature adopted a new tax package made up of increased sales taxes, a statewide property tax levy and renewed reliance on local property tax levies to resolve the problem.

So far, it has been reported that the plan centralized school funding in Michigan, moving it from a state which contributed 30 percent of all funding to a state in which about 80 percent of school revenues are raised at the state level. This plan has the potential for improving equality of educational opportunity for low income children while restricting funding in affluent districts.[35] Michigan analysts are not yet ready to assess its results. They also make the comment that there is concern that the new tax package may prove a less stable revenue source of funds for public education because, unlike the local property tax, sales taxes and taxes on cigarettes may be subject to rapid change from year to year. Some predict substantial revenue shortfalls under the new plan. Furthermore, the earmarked revenues appear to fall short of the funds needed to support fully the sum appropriated by the legislature for K-12 education.[36]

Comment:

In Michigan the issue of how to finance public schools became the focus of a highly partisan battle. The issues were drawn more in terms of tax relief than in terms of how best to pay for educational services. Voters in affluent districts were attracted to support Governor Engler's revised school finance plan because it was closely linked to property tax reduction. The legislature acted precipitously in totally abolishing the property tax without a plan to replace lost revenues; later it had to modify its action, forced by existing tax limits on non-property tax increases that were not fully understood at first. The legislature did not take time to analyze the impact of the new tax package on people, how the higher sales taxes and fees, and the shift from locally levied to statewide property taxes treated differently various groups of tax payers or tax payers in different regions. Such shifts change the equation of who pays and who gains as a result of the switch to alternative revenue sources. In Michigan's case there was an imbalance in the structure of the state's revenue sources — an under utilization of the sales tax and a high reliance on property taxes. The new plan substantially corrected this imbalance, but reduced the overall revenue package for education and increased the state's reliance on taxes that are less stable than property taxes because they are affected more directly by changes in cyclical economic trends.[37]

There are parallels between the Michigan experience and the debate on tax sources that is heating up in New York State. However, New York State has fewer revenue alternatives to turn to. New York's sales and income taxes are already higher than those in neighboring states and to raise them would be to jeopardize the state's competitive position, making it harder to attract and hold both industry and residents. An increase in sales taxes could put a greater burden on lower income people, while a reduction in property taxes would affect income classes differently, depending on their places of residence and status as renters or homeowners.

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34. *New York Times*, "Michigan Votes for Revolution in Financing its Public Schools," March 17, 1994.
35. *Study on the Generation of Revenues*, Philip Kearney, "Reducing Local School Property Taxes: Recent Experience in Michigan," December, 1994.
36. Ibid. pp. 166-167.
37. Ibid., p. 160.

It is true that the Governor Pataki is pledged to reduce income taxes and has turned to New Jersey as a model for eliminating state income taxes. So far we have not heard whether he proposes to make up the deficiency that would result by draconian cuts in spending and/or an increase in other revenue sources. Unlike New Jersey, New Yorkers have been paying state income taxes for decades. While there is vocal demand for a cut in all taxes, many New Yorkers are currently targeting property taxes as the most objectionable revenue instrument. Yet, property taxes are virtually the sole source of revenue for town and village governments and local public education throughout the state. People throughout New York cling loyally to their authority to exercise fiscal control over local school budgets and other local functions.

For New York State, with its already high tax burden, options for shifting from one revenue source to another are limited. In a recent symposium on school revenues convened in Albany by the Board of Regents, a group of economists considered possible alternatives to the present package of taxes that now support public schools in New York State. In its review of the property tax, the panel examining property taxes found that the property tax was less burdensome than it is commonly perceived to be and that there were a number of measures that could be adopted to improve it.[38] In our section on options for reform, we discuss some proposals for reducing the burden of the property tax, improving its administration and broadening its tax base.

38.*Study on the Generation of Revenues*, Panel I, Hamilton Lankford and James Wyckoff, Dick Netzer and Robert Berne, "Evaluating the New York Experience with the Real Property Tax." p. 6.

•SCHOOL FINANCE LITIGATION IN SELECTED STATES •

STATE	COURT CASE	CURRENT EXPENSE per pupil, 1991-92	YEAR	PLAINTIFFS	STATE CONST. CLAUSE	MAIN CLAIM	COURT RULING
Kentucky	Rose v. Council for Better Education, Inc.	$4,924 ranks 31	1989	non-profit corp. consisting of school districts, school boards and students	The General Assembly shall. ..provide for an efficient system of common schools. . .	State serves a population of school children at-risk, poor statewide performance, pervasive inequities	The court called for revision of the "entire sweep of the system", broadly defining efficiency to cover all aspects of the system and defined its minimal characteristics. The court listed 7 capacities required by an adequate education. Schl. based management mandated.
Texas	Rodriguez v. S.Antonio, 1971. Edge-wood Indep. Sch. Dist. v. Bynum, 1984 . Edge. v. Kirby, 1987. Edge.III filed in 1992; Edge. IV in process.	$4,643 ranks 36	Edgewood first filed in 1984; Legislature's attempts to reform state's school finance system ruled unconst. three times. In 1993, countywide taxing districts ruled unconst.	A group of poor school districts	Constitution requires an "efficient" system of public education.	Plaintiffs claimed the system violated the state constitution's equal rights and due course of law guarantees and its efficiency mandate.	Edge.III court ruled system unconst.,ruling stressed tax payer equity, insufficient aid. Equal protection claims denied. Required new plan to be fiscally neutral and include schl. based management. Texas legislatures have struggled to comply with ruling by increasing funding, revising distribution patterns and school structures. Trial court in Edge. IV declined to define adequacy.

Connect-icut	Horton v. Meskill filed 1977. Sheff v. O'Neill	$8,035 ranks 4	Sheff v. O'Neill challenges revolve around integration issue.	Segregation suits brought by 18 Hartford school children, claiming unequal opportunity.	Const. requires only that state provide free schools.	In Horton, towns in less affluent areas claimed inability to support schools at levels attained elsewhere. State instituted guaranteed tax base plan. In 1989 Conn. adopted a modified foundation plan. Hartford challenge based on alleged racial discrimination.	Despite unspecific education clause in constitution, State Supreme Court declared education to be a fundamental right, and ruled for plaintiffs in Horton. Adequacy of response still at issue; Decision in Hartford suit pending.
New Jersey	Robinson v. Cahill, 1976 Abbott v. Burke,1984, 1985, 1990, 1993.	$9,754 ranks 1	First filed in 1976; has been at issue continuously. Last ruling by state court in Aug. 1993.	Poor districts and school children in Robinson; 30 poor urban districts in Abbott.	State must provide "a thorough and efficient education"	Initial claim based on statewide inequities and reliance on property tax; Abbott v. Burke stresses inadequate funding for urban poor. Focus on revenue sources; mandated increase in spending required increase in income taxes; statewide property tax proposed.	Court required legislature to close spending gap between special needs (urban) districts and wealthy school districts within specified time limit. State must enable children to compete with peers. Compliance still at issue. 1993 legislative plan (Q.E.A.) ruled out by Superior Court, Aug. 1993.
Washing-ton	Northshore School District No. 417 v. Kinnear, 1975. Seattle Schl. Dist. No. 1, v. State, 1978.	$5,270 ranks 22	Northshore filed in 1975; Seattle in 1978. Tronsen v. State, 1991 seeks to extend Seattle ruling.	Northshore plaintiffs were school districts. Seattle action brought on behalf of the city district,	The education of all children... is the primary obligation of the state...the state shall make ample provision for all children...	State share of school spending relatively high, already 90 % in 1980–81. In 1990–91, state share was 73.7% of total school funding. Cases were based on inequalities and called for more support in urban districts.	In 1977 Wash. assumed full responsibility for a basic education program. State funding extended in 1983 to cover handicapped, bilingual pupils and trans. costs beyond the control of the district. State determines salary costs; allocates on basis of estimated staff units per pupil.

Source: Articles in *Journal of Education Finance*; also, *Public School Finance Programs of the US. and Canada, 1990–1991,* American Education Finance Association; Expenditure and Ranking data from *Ranking of the States, 1993,* National Education Association, Table H–14., p. 62.